



NCUA Annual Performance Budget 2011



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Message from the Board

We are pleased to present the National Credit Union Administration's Annual Performance Budget 2011. The Annual Performance Budget, or APB, was developed using the NCUA 2011-2016 Strategic Plan as its basis.

The annual objectives represent NCUA's priorities for 2011. They collectively support accomplishment of the 2011-2016 strategic goals. Specifically, NCUA's annual objectives are to:

- Monitor and control credit union risk;
- Improve stability of the corporate credit union system;
- Further implement the Office of the Chief Economist;
- Further implement the Office of Consumer Protection;
- Assist low-income credit unions in increasing accessibility of credit union services;
- Increase public knowledge of NCUA and the National Credit Union Share Insurance Fund benefits;
- Promote a regulatory environment that enables credit unions to increase accessibility of services to consumers;
- Increase communications with stakeholders to yield a more transparent and effective regulatory environment;
- Increase staffing in line with projected needs to accommodate the enhanced examination schedule;
- Enhance training to update knowledge and skill level of staff so they can meet changing environmental challenges;
- Increase representation and participation rates of under-represented minorities in the NCUA workforce; and
- Establish the Office of Minority and Women Inclusion.

The current economic environment will continue to provide challenges to the credit union system and to the NCUA. Credit unions' financial positions are strong and we believe, uniquely positioned to address these challenges. NCUA, using the tools of its performance management process, will continue to enhance its ability to meet these challenges, as well. NCUA will monitor its progress on a quarterly basis with its identified performance measures and targets providing it the necessary flexibility to respond to impacts driven by external factors beyond its control.

NCUA will strive to meet its objectives to ensure that America's credit unions remain well-capitalized, responsibly managed, and efficiently provide desired services to their current and future members. This will promote a credit union system that is thriving and self-sustaining for many years to come.

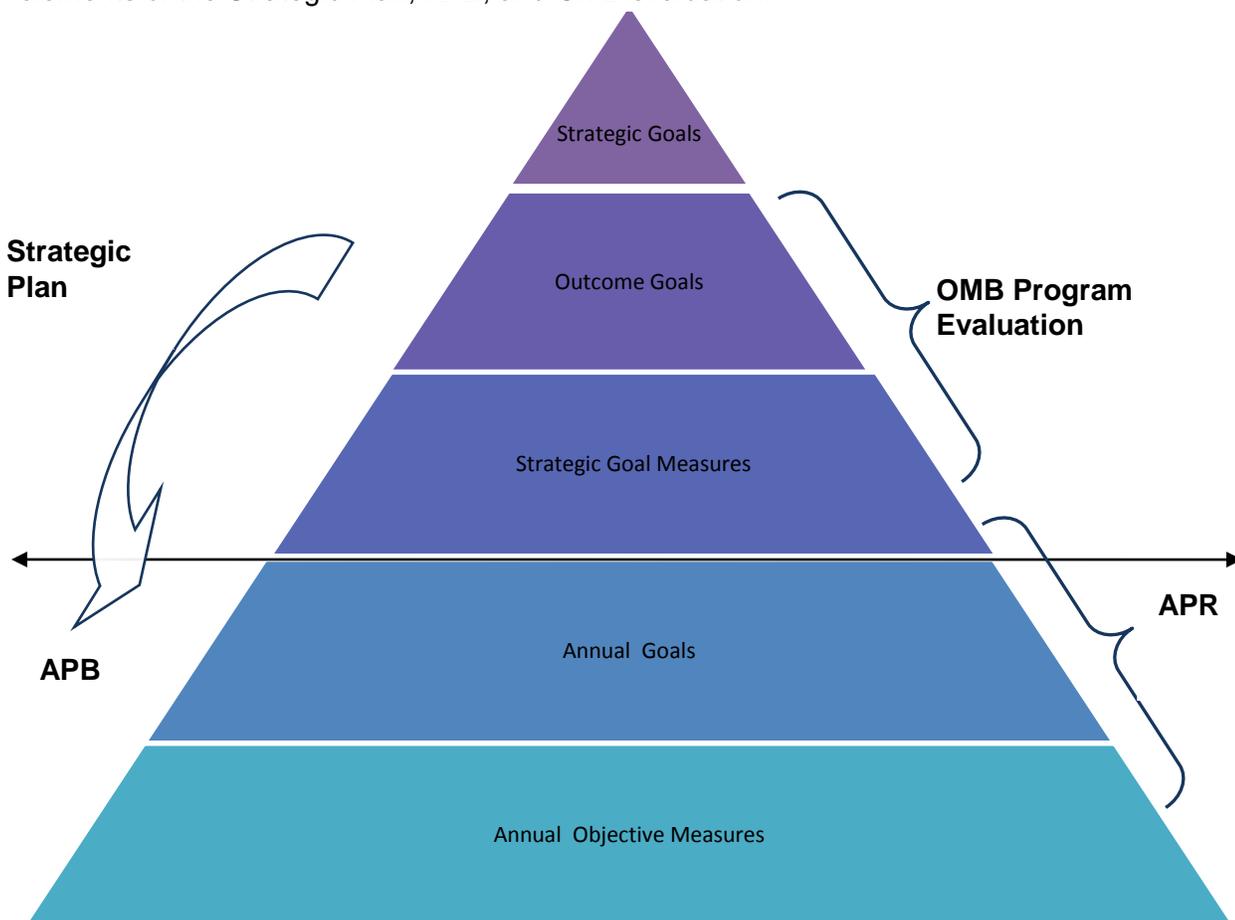
Mission and Vision

Throughout 2011, NCUA will implement initiatives to continue meeting its mission to *“Provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit,”* and its vision to ensure that *“NCUA will protect consumer rights and member deposits.”*

Performance Management Process

NCUA’s performance management process begins with the agency’s strategic plan that provides long-term strategic goals for the agency and serves as the cornerstone of the performance management process. The Annual Performance Budget (APB) serves as the agency’s operational plan. It outlines NCUA’s annual (short-term) objectives, strategies, and corresponding performance goals that contribute to accomplishing the established strategic goals. Goal accomplishment is evaluated through the use of performance measures each quarter. At the end of each APB period, a formal analysis of performance is documented in the Annual Performance Report (APR) which includes measure results, an analysis of agency program performance and factors that may have affected goal achievement.

The Office of Management and Budget (OMB) evaluates the effectiveness of the NCUA’s programs and its performance management process. The following chart illustrates the relationship among the elements of the Strategic Plan, APB, and OMB evaluation.



NCUA's 2011 APB annual objectives support and complement the 2011-2016 strategic goals. The 2011 NCUA annual objectives are based on each strategic goal as follows:

<u>Strategic Goals</u>	<u>Annual Objectives</u>
Ensure a safe, sound and healthy credit union system	Monitor and control credit union risk
	Stabilize the corporate credit union system
Promote credit union access to all eligible persons	Further implement the Office of Consumer Protection
	Assist low-income credit unions in increasing accessibility of credit union services
	Increase public knowledge of NCUA and NCUSIF benefits
Further develop a regulatory environment that is transparent and effective	Provide greater transparency and clarification of consumer compliance regulations
Issue clearly articulated and easily understood regulations	Increase communications with stakeholders to yield a more transparent and effective regulatory environment
Cultivate an environment that fosters a diverse, well-trained and motivated staff	Increase staffing in line with projected needs to accommodate enhanced examination schedule
	Enhance training to update knowledge and skill level of staff
	Increase representation and participation rates of underrepresented groups such as Hispanics and people with targeted disabilities in NCUA workforce
	Establish NCUA Office of Minority and Women Inclusion

Each annual objective has corresponding performance measure(s) and target(s). Performance measures use indicators from available data to provide a way to determine if the agency's goals and objectives are met in the proposed time frame. Targets serve to establish a level of performance that the agency strives to achieve. Performance measures and targets will be reviewed regularly to assess the effectiveness of NCUA's programs and strategies. This assessment allows the agency to make adjustments to improve performance throughout each year and strategic plan time frame.

High Priority Performance Goals

In June 2009, OMB requested that all agencies identify a limited number of High Priority Performance Goals (HPPGs) as part of a government-wide “management and performance framework to achieve near-term priorities and overcome long standing management challenges.”¹ As defined by OMB, HPPGs are short-term goals that have high direct value to the public, resolve challenges that will lead to improved effectiveness or efficiency that could not be overcome without directing agency resources to their achievement. HPPGs should be achievable within eighteen to twenty-four months. Furthermore, HPPGs should be stated as performance outcomes, which can be evaluated through the use of quantitative measures.

NCUA has integrated its HPPGs and annual objectives. This is explained in the subsequent Strategic Goals and Annual Objectives section. The goals and objectives are designed to contribute to NCUA’s strategic goal achievement. While all annual objectives are important and the agency will strive to achieve them, the HPPGs are the highest priority in the short-term necessary to meet NCUA’s mission. Subsequently, they will receive the necessary agency focus and resources to be achieved within eighteen to twenty-four months. The HPPGs for 2011 are:

- Monitor and control risk in the credit union system, *as measured by a reduction in losses to the NCUSIF.*
- Stabilize the corporate credit union system, *as measured by the corporate credit union system interim leverage ratio improvement.*

These two priorities represent the most beneficial use of agency resources in the coming year to achieve the largest positive impact to credit union members and the public.

¹ Office of Management and Budget, M-09-20, “Planning for the President’s Fiscal Year 2011 Budget and Performance Plans”, June 11, 2009.

Major Agency Programs

NCUA's major programs² are:

Corporate Credit Union Supervision

The supervision program for corporate credit unions provides close monitoring of all 26 federal and state-chartered institutions. Each corporate credit union is provided an annual examination as well as a monthly onsite or offsite supervision contact, depending on size and complexity. Corporate credit unions are also required to file detailed financial data call reports on a monthly basis. The focus of NCUA's efforts in supervising corporate credit unions is to ensure their ongoing safety and soundness as well as their continued ability to provide uninterrupted services to the natural person credit unions they serve.

Natural Person Credit Union Supervision

The supervision program includes the annual examination and consistent supervision oversight of all federal natural person credit unions. Additionally, state-chartered, federally insured credit unions with over \$250 million in assets are examined annually by NCUA. The program contributes to the safety and soundness of the credit union system by identifying and resolving industry risks at the earliest time. Interest rate risk, credit risk, concentration risk and strategic risk continue to be the main focus of the supervision program for the coming year. Regulations and informative guidance are issued periodically to assist the industry in managing associated risk areas.

Insurance

The NCUA manages the National Credit Union Share Insurance Fund (NCUSIF), which provides insurance for member deposits held at federally-insured natural person and corporate credit unions. The NCUSIF is capitalized by credit unions. NCUA protects the integrity and financial stability of the NCUSIF by managing risks and minimizing losses. In 2010, the insurance limit per account type was increased permanently by Congress from \$100,000 to \$250,000.

Small Credit Union Initiatives

The NCUA fosters credit union development, particularly the expansion of services provided by small credit unions to eligible consumers. This is fulfilled through training, partnerships and assistance. A major source of assistance is the Community Development Revolving Loan Fund (CDRLF), which provides loans and grants to credit unions that serve low-income consumers to assist credit unions in providing basic financial services and stimulating economic activities in their local communities.

² A "program" is described by the Office of Management and Budget (OMB) as, "an organized set of activities directed toward a common purpose or goal that an entity undertakes or proposes to carry out its responsibilities". OMB has previously designated and assessed three distinct NCUA programs: Supervision, Insurance, and the Credit Union Loan and Technical Assistance Grant program (small credit union initiatives).

Consumer Protection

NCUA protects credit union members through effective enforcement of consumer protection regulations and requirements. NCUA's commitment to protecting consumers is demonstrated by the establishment of the Consumer Protection Office to enhance consumer protection, education, and access to credit union services.

Asset Management

The NCUA conducts credit union liquidations and manages the assets of failed credit unions, to minimize costs to the NCUSIF and to credit union members, through its Asset Management and Assistance Center (AMAC). AMAC participates in credit union examinations by performing reviews of large complex loan portfolios and actual or potential bond claims. It also participates extensively in the operational phases of conservatorships and records reconstruction.

Overview of Strategic Goals and Annual Objectives

<u>Strategic Goal 1</u>	<u>Strategic Outcomes</u>
Ensure a safe, sound, and healthy credit union system	An effective supervision program for federally insured credit unions.
	A stabilized corporate credit union system that continues to provide services to natural person credit unions.
Contributing Programs: Asset Management, Consumer Protection, Insurance, Small Credit Union Initiatives, Supervision	
Primary Contributing Offices: Asset Management and Assistance Center, Office of Capital Markets, Office of the Chief Economist, Office of Corporate Credit Unions, Office of Examination and Insurance, Office of the General Counsel, Office of Small Credit Union Initiatives, Regions	

The Federal Credit Union Act assigns statutory responsibility of the NCUSIF and oversight of the credit union system to the NCUA. The NCUA focuses on balancing safety and soundness and credit unions' ability to meet their member needs by ensuring all programs work in concert to achieve this objective.

Through its supervision programs, NCUA conducts both natural person and corporate credit union examinations, enforces regulations, and disseminates guidance to assist credit unions in understanding regulations or emerging risks. The insurance program uses credit union call report data from the examinations to identify high-risk credit unions and resolve risks to the NCUSIF through increased supervisory guidance and administrative actions. The asset management program also contributes to controlling risks by reviewing large complex loan portfolios and participating in the operational phases of conservatorships that serve to stabilize credit union operations to maintain soundness of the system.

The economic and financial markets crisis has created many challenges beyond NCUA's control in meeting Strategic Goal 1. To mitigate effects of these challenging times, NCUA has taken the following initiatives to help the credit union system remain safe and sound:

NCUA's three-part strategy that stabilizes, resolves, and reforms the corporate credit union system includes:

1. **Stabilization and liquidity increase:** During 2008 and 2009, NCUA initiated several actions to provide much needed liquidity to the system. The Liquidity Guarantee program provided a guarantee for unsecured debt obligations issued by corporate credit unions. This allowed the corporate credit unions to continue services to their members. NCUA also sought and received an increase in the Central Liquidity Facility borrowing authority. The increase was used to establish special lending initiatives to inject liquidity into the corporate credit union system. These loans were coupled with a guarantee program that encouraged natural person credit unions to maintain deposits in the corporates, preventing a run and maintaining a stable level of shares in the system. Lastly, Congress established the Temporary Corporate Stabilization Fund. This fund is used to pay expenses associated with problem resolution in the system in the short-term and can be repaid over a longer time. Natural person credit unions will incur

special assessments in order to repay the loans. However, these assessments will be spread over time thus reducing their burden and potential for natural person credit union problems to arise.

2. **Resolution:** NCUA's resolution strategy, which was finalized in 2010, included placing three additional corporate credit unions into conservatorship to facilitate isolating and funding legacy assets of the five critically undercapitalized corporates. These five corporate credit unions held the majority of the problematic investments. Additionally, NCUA's resolution plan established bridge corporate credit unions to conduct essential activities of the conserved corporate credit unions with no interruption in member services, particularly facilitating payment, and settlement services.
3. **Reform:** In 2010, the NCUA Board approved a new, stronger corporate rule to ensure the system remains safe and sound by establishing new capital requirements and reducing investment authority. During the transition period credit unions will make important choices about the future of the conserved corporate credit unions. This comprehensive plan will ensure that the nation's credit union system will remain safe and sound.

The safety and soundness of the entire credit union system, as well as its ability to meet member needs, is NCUA's priority. While stabilizing the corporate credit union system maintains the safety and soundness of the natural-person credit unions, NCUA also implemented the following targeted strategies:

1. In 2008, the Board required adjustments to the risk-based examination scheduling. During 2010, incremental changes were made to the examination scheduling to work toward the goal of conducting an annual exam for all Federal Credit Unions (FCUs) and joint exams for all Federally Insured State-Chartered Credit Unions (FISCU) with assets greater than \$250,000,000. In 2011, the agency will continue and complete the conversion to the annual examination program.
2. In 2009, NCUA implemented a "red flag" early warning system model in an effort to proactively detect problems and to minimize losses to the NCUSIF. Additionally, the agency worked to enhance communications with the credit union industry by issuing guidance timely, revising pertinent regulations, and increasing supervision and/or administrative actions.

These efforts work in tandem to help NCUA manage risk to the credit union system and the NCUSIF.

<u>Annual Performance Objective 1.1 – High Priority Performance Goal</u>	
Monitor and control credit union risk.	
<u>Measure</u>	<u>2011 Target</u>
Percent of annual examinations completed ³	100 percent
Losses to NCUSIF	Decrease from previous year

³ All FCUs will receive annual examinations. FISCU with assets over \$250,000,000 are examined annually by NCUA.

One of the main initiatives NCUA has begun is to monitor and control credit union risk by implementing an annual exam for all Federal Credit Unions. Beginning in 2011, the program should be fully implemented. As such, one of the measures of success is to determine whether the program was fully implemented, as measured by the percent of annual examinations completed. Another indicator of credit union risk is credit union failure and the need to use NCUSIF funds. Therefore, a decrease in losses to the NCUSIF would indicate a reduction in system risk and an increase in its stability.

In 2011, NCUA will continue efforts to stabilize the credit union system by monitoring and controlling risk through the following means, strategies, and initiatives:

Operational processes and strategies:

- Provide relative, yet flexible, examination tools that proactively change with the economic environment and/or as risks change or increase.
- Develop a national supervision guidance policy.
- Align staff resources to ensure supervision and annual examination program compliance.
- Standardize the quality control review program.
- Refine risk models: incorporate economic forecasting into national models.
- Continue to provide individualized assistance to small and low-income credit unions.
- Encourage credit unions to use sound balance sheet risk management practices through increased communications, examination and supervision guidance that is clearly articulated and disseminated timely.

Human Capital:

The 2010 NCUA budget provided for fifty-seven (57) additional Full-Time Equivalents (FTEs) for the examination program. The 2011 budget likewise increases the examination workforce by sixty (60) FTEs. Overall this represents an increase, over two years, of nearly ten percent (10%) of total staff dedicated to implementing the annual examination program and increasing supervision efforts.

Information Technology:

NCUA continues to invest in technology that will improve its programs and its ability to maintain the safety, soundness and health of the credit union system. Specifically, leadership allocated funds to continue to improve risk identification, further implement the 5300 credit union online reporting system, update AIRE (NCUA’s examination tool), and implement the new Information Quality Program. Moreover, the Office of the Chief Information Officer has budgeted funds to improve other online reporting services for internal use.

<u>Annual Performance Objective 1.2 – High Priority Performance Goal</u>	
Improve stability of the corporate credit union system.	
<u>Measure</u>	<u>2011 Target</u>
Corporate credit union system interim leverage ratio	4 percent

This objective will continue to be one of NCUA’s top priorities. NCUA has already begun implementing its three-part corporate Resolution Plan to stabilize, resolve, and reform the corporate credit union

system. In September 2010, the NCUA Board approved a corporate rule that sets new capital standards and investments limits in order to maintain stability and liquidity. Success in meeting this objective will use the newly established interim leverage ratio, which looks at a corporate credit union's capital and retained earnings, as an indicator. Corporate credit unions that are sound should meet the established minimum.

NCUA will use the following means, strategies, and initiatives to improve the stability of the corporate credit unions system:

Operational processes and strategies:

- Manage conserved corporate credit unions to minimize disruption of services to members.
- Ensure bridge corporates to continue uninterrupted services so members have allowed sufficient time to explore their long-term options for obtaining these services. This could be expected to take up to twenty-four months.
- Continue operating the Temporary Corporate Credit Union Stabilization Fund to spread out the costs needed to address corporate issues.
- Manage disposition of legacy assets of corporate credit unions and minimize related costs to natural person credit unions.
- Allow corporate credit unions time to reach newly established adequate capital standards.
- Provide staff with prompt corrective action tools for dealing with undercapitalized corporates.
- Utilize outside resources to increase the ability to respond to continued liquidation workload without incurring long-term costs.

Human Capital:

NCUA will continue to ensure the Office of Corporate Credit Unions is fully staffed, as well as using all personnel from other offices as necessary to achieve this objective.

Information Technology:

Incorporate the 5310 (corporate credit union call reports) into CU online and develop corporate risk reports. The Office of the Chief Information Officer budget includes 2011 funds to improve online reporting services available for internal use throughout the agency.

Annual Performance Objective 1.3

Further Implement the Office of the Chief Economist.

<u>Measure</u>	<u>2011 Target</u>
Office of Chief Economist is fully staffed and fully operational	4th quarter of 2011

Fully implementing the Office of the Chief Economist (OCE) by the fourth quarter of 2011 is a priority so that the new office can implement its initiatives to develop economic analyses and enhance risk monitoring capabilities that will contribute to agency programs. Fully staffing the office was therefore chosen as the measure.

NCUA will use the following means, strategies, and initiatives to fully establish OCE:

Operational processes and strategies:

OCE will focus our efforts in five broad topic/project areas with near-term emphasis on economic intelligence with an emphasis on regional information, supporting regulatory reform implementation and Interagency Process and establishing and supporting existing risk modeling activities.

- Economic intelligence- establish and maintain current conditions process linked to economic theory and viewed in context of credit union institutional framework
- Enhance modeling and risk identification capabilities
- Assist in NCUA policy development
- Provide analytical support as needed
- Engage/support interagency process

Human Capital:

OCE will recruit and hire two additional staff economists by year-end.

Information Technology:

The office will maintain and expand an intranet site to manage disseminating economic data and resources to field staff. The office will procure and train staff on two statistical analysis systems and continue to incorporate new economic data and analysis tool.

<u>Strategic Goal 2</u>	<u>Strategic Outcomes</u>
<p>Promote credit union access to all eligible persons</p>	<p>A wide range of financial services are available to members and potential members from all walks of life.</p>
	<p>Members and potential members are aware of credit union membership benefits and that their accounts are insured up to \$250,000.</p>
<p>Contributing Programs: Asset Management, Consumer Protection, Insurance, Small Credit Union Initiatives, Supervision</p>	
<p>Primary Contributing Offices: Asset Management and Assistance Center, Office of the Chief Economist, Office of Consumer Protection, Office of Examination and Insurance, Office of the General Counsel, Office of Public and Congressional Affairs, Office of Small Credit Union Initiatives, Regions</p>	

NCUA strives to promote access to credit union services, especially to consumers of modest means. Strategic Goal 2 is another one of NCUA's statutory responsibilities, and receives contributions from the majority of NCUA's programs. Both the small credit union initiatives and consumer protection programs actively promote access by educating consumers on the benefits of credit union memberships, providing community development and consumer financial education, and managing the chartering of new credit unions as well as field of membership expansions. The supervision, insurance, and asset management programs work together to regulate and provide guidelines for credit union services and chartering, ensuring that member funds are safe and accessible at all times.

NCUA continues to educate consumers as well as assist credit unions to make services available to members and potential members. NCUA receives appropriated funds to make grants and loans to credit unions through the Community Development Revolving Loan Fund (CDRLF). These funds help credit unions improve member services offered (e.g. install ATM machines, provide web services), provide financial education to their communities and provide volunteer tax assistance to members. The Enhancing Member Services Initiative Grants encourage credit unions to undertake projects that provide new or better services to members and to the community. NCUA also created an online resource for credit unions to find information and resources available on areas such as community outreach, member services delivery, and financial education for consumers.

In 2009, NCUA approved the creation of the Office of Consumer Protection, demonstrating the increased importance NCUA gives to protecting credit union members. This office will be responsible for consumer protection and compliance policies and programs. It will also dedicate staff to assisting consumers improve their financial literacy and managing NCUA's member complaint call center. The office is expected to be fully established in 2011.

The NCUA Board is also actively involved in community initiatives, town hall meetings, promoting financial literacy, and overall communicating the benefits of credit union membership and the NCUSIF.

Annual Performance Objective 2.1

Further Implement the Office of Consumer Protection.

<u>Measure</u>	<u>2011 Target</u>
Office of Consumer Protection is fully staffed and call center is fully operational	3 rd quarter of 2011

Fully implementing the Office of Consumer Protection (OCP) by the third quarter of 2011 is a priority so that the new office can implement its initiatives. Fully staffing the office and having an operational call center were therefore chosen as the measure.

NCUA will use the following means, strategies, and initiatives to fully establish the Office of Consumer Protection:

Operational processes and strategies:

- Consolidate and centralize the agency's resources for administering chartering and field of membership policy and activities (with the exception of mergers and liquidations) into the Division of Consumer Access within the OCP.
- Establish, consolidate, and coordinate consumer protection functions within NCUA.
- Draft operating procedures for the member complaint process and develop an automated system to facilitate tracking and resolution of member complaints.
- Develop a webpage where consumers can obtain answers to frequently asked questions and other information regarding OCP and its responsibilities.

Human Capital:

The OCP will be partially staffed by existing NCUA regional staff. The regional Division of Insurance staff and functions will be transitioned into the OCP by the end of the third quarter of 2011.

Information Technology:

The office will establish a web page and a call center to manage disseminating consumer information and handling member inquiries or complaints.

Annual Performance Objective 2.2

Assist low-income credit unions in increasing accessibility of credit union services.

<u>Measure</u>	<u>2011 Target</u>
Number of new grant applicant credit unions	Increase from previous year
Percent of appropriated funds expended	100 percent

Increasing access to credit union services for low-income consumers is one of NCUA's 2011 objectives. NCUA undertakes various initiatives to assist small and low-income credit unions achieve this. NCUA receives appropriated funds for some of these initiatives, therefore expending all funds and

any additional funds gained from loan interest will be used as an indicator of success. Additionally, NCUA would like to expand and diversify the credit unions receiving technical assistance grants and is educating credit unions on availability and the application process. The number of new grant applicants was determined to be a good measure for this objective.

NCUA will use the following means, strategies, and initiatives to increase accessibility of financial services:

Operational processes and strategies:

- Educate credit unions on chartering and field of membership policy changes.
- Encourage small and low-income credit unions to participate in small credit union development programs and initiatives such as grant, loan, Economic Development Specialist assistance, and partnership programs.
- Provide guidance, education, and information to credit unions needed for the delivery of services; provide training that is relevant to most pressing operational issues; use technology to develop and provide educational sessions; develop presentations for the following new topics for credit unions: payment systems – Automated Clearing House (ACH) transactions, wire transfer, item processing (share drafts).
- Administer the CDRLF to support credit unions in providing basic financial services to low-income members and their communities, increasing economic activities in the communities the credit unions serve and improving credit union operations. Implement the following new grant initiatives: Financial Education (in grade schools), Due diligence/Risk management/Payment System, and Understanding Financial Statements for New Officials.
- Provide information and educational opportunities for credit unions and NCUA staff to encourage partnership participation to promote the expansion of consumer services in credit unions.

Human Capital:

The Office of Small Credit Union Initiatives leads these initiatives and its Economic Development Specialists provide individualized assistance to credit unions. Regional staff also provide assistance to help credit unions learn about and understand available programs and applicable regulations.

Information Technology:

NCUA’s website continues to provide assistance to low-income credit unions by providing information and a link to The Resource Connection webpage.

<u>Annual Performance Objective 2.3</u>	
Increase public knowledge of NCUA and NCUSIF benefits.	
<u>Measure</u>	<u>2011 Target</u>
Educational campaign ad landing webpage ⁴ views	Increase throughout year
Percent of phone calls received by consumer hotline related to NCUSIF that are satisfactorily resolved	Establish benchmark in 2011

⁴ The ad landing page is a webpage containing NCUA’s educational campaign. It is reached when a person clicks on an online ad which links to the educational campaign landing page at <http://www.ncua.gov/NCUAsafe.aspx>.

NCUA began an educational campaign in 2009 to increase consumer awareness of the agency and the fact it insures credit union share deposits to \$250,000. One of the key components of the campaign is an internet advertisement that allows the viewer to click through to a webpage that contains NCUA information and the campaign's message. Measuring the ad landing webpage views serves as a reasonable indicator of educational campaign success. The consumer hotline, which will be established by the Office of Consumer Protection, will also convey the benefits of the NCUSIF as it resolves caller's questions related to it. Call resolution satisfaction was added to serve as an indicator that public knowledge of NCUA and the NCUSIF increases.

NCUA will increase knowledge of NCUSIF benefits through the following means and strategies in 2011:

Operational processes and strategies:

- Continue public relations campaign that began in late 2010; include social media as distribution channel.
- Continue to create educational materials in various languages.
- Establish a call center to address general inquiries from consumers regarding share insurance.

Human Capital:

Staff from the newly established Office of Consumer Protection and the Office of Public and Congressional Affairs will lead this goal, in coordination with other offices and regions. Additionally, a working group has been established to develop a social media outreach program.

Information Technology:

NCUA will maximize available technology to increase public knowledge of the agency and the NCUSIF. The public website will feature consumer-friendly pages to provide information. NCUA has also initiated use of and will continue to use social media channels to disseminate its public relations campaign.

<u>Strategic Goal 3</u>	<u>Strategic Outcome</u>
<p>Further develop a regulatory environment that is transparent and effective.</p>	<p>Credit unions are an accessible financial institution choice for consumers of all backgrounds and income levels.</p>
<p>Contributing Programs: Consumer Protection, Small Credit Union Initiatives, Supervision</p>	
<p>Primary Contributing Offices: Office of Consumer Protection, Office of Examination and Insurance, Office of the General Counsel, Office of Small Credit Union Initiatives, Regions</p>	

NCUA seeks to create a regulatory environment that is effective and allows credit unions to be an accessible choice for consumers. Several NCUA programs work together to achieve this. The Board

develops credit union regulations and the supervision programs provide appropriate guidance and clarification on regulations and emerging issues in the credit union and financial services industry. The small credit union initiatives and consumer protection programs serve to further increase understanding of regulations at both the credit union and consumer level.

In the past couple of years, NCUA has used regulations to further provide consumer access to credit union services, as well as improve effectiveness of these regulations. Among the actions NCUA has taken are: implementing changes in operating fee rules to enhance participation in the Credit Union Homeowner's Affordability Relief program and collaborating with other federal agencies on rules implementing the Credit Card Accountability Responsibility and Disclosure Act. The agency has also clarified and broadened account insurance coverage, and addressed technological and operational innovations through enhancements to incidental powers and fixed asset rules. In 2010, NCUA also implemented a new rule with a strong set of consumer safeguards to allow federal credit unions to make short-term, small-amount loans as an alternative to predatory lending from other sources.

In addition to these initiatives, the NCUA also continues to focus on ensuring that credit unions adhere to consumer compliance regulations. This focus is necessary to prevent barriers from developing between members and essential products and services through discrimination or unfair or deceptive acts or practices. The NCUA has underscored its commitment to a strong consumer compliance examination program through the creation of the new Office of Consumer Protection.

Lastly, the NCUA board continues to improve transparency by broadcasting (webcasting) all open Board Meetings and individual Board members are increasing their outreach at town hall events and webinars.

<u>Annual Performance Objective 3.1</u>	
Promote a regulatory environment that enables credit unions to increase accessibility of services to consumers.	
<u>Measure</u>	<u>2011 Target</u>
Equal Credit Opportunity Act violations Home Mortgage Disclosure Act violations Fair Housing Act violations Truth-in-Lending violations	Decrease from prior year
Number of complaints pertaining to regulations received in consumer hotline	Establish baseline in 2011 and continue to decrease

NCUA regulations should not impede accessibility to credit union services, but allow credit unions to increase their availability. There are various regulations that ensure consumers have fair access to financial services. Violations of these regulations, or lack thereof, can serve as a measure to determine whether regulations increase accessibility of credit unions services. NCUA will also use the number of complaints received pertaining to regulations as a measure of whether these are increasing or preventing accessibility of services to credit union consumers.

Operational processes and strategies:

- Implement new requirements set forth in the NCUA's Board revision of part 704, the corporate credit union rule.

- Revise or clarify regulations as necessary based on annual reviews of one-third of all NCUA regulations.
- Represent NCUA on interagency groups or committees involving consumer protection laws, regulations, policy, and guidance.
- Conduct quality control reviews of consumer compliance violations reported through the examination process to ensure accuracy.
- Perform targeted fair lending examinations to further determine industry compliance with key consumer compliance regulations.

Information Technology:

NCUA will track violations through the examination process as well as fair lending examinations using appropriate ARIES modules during examinations. A call center and database system will be implemented in 2011 to track and classify calls received by the Consumer Hotline.

<u>Strategic Goal 4</u>	<u>Strategic Outcome</u>
Issue clearly articulated and easily understood regulations.	Regulations are user friendly, effective and enhance the safety of the credit union system without adding undue burden.
Contributing Programs: Consumer Protection, Small Credit Union Initiatives, Supervision	
Primary Contributing Offices: Office of Consumer Protection, Office of Corporate Credit Unions, Office of Examination and Insurance, Office of the General Counsel, Office of Small Credit Union Initiatives	

NCUA seeks to ensure the soundness of the credit union system through regulations, while not adding undue burdens to credit unions. The Board strives to issue effective regulations that are clearly articulated, as well as provide additional clarification on rules and regulations as necessary based on stakeholder comments. Four major NCUA programs collaborate to reach this outcome. The corporate and natural person supervision programs, consumer protection program and small credit union initiatives program ensure clarity and understanding at the more tactical level by establishing direct contact with credit unions.

In 2010, NCUA continued its annual review of one-third of credit union regulations. Several new means of increasing communications with stakeholders to improve regulatory understanding have been adopted.

Annual Performance Objective 4.1

Increase communications with stakeholders to yield a more transparent and effective regulatory environment.

<u>Measure</u>	<u>2011 Target</u>
Town hall meetings	Improve attendance from prior year
Webinars on regulatory topics	Improve attendance from prior year
Small credit union training events	Improve attendance from prior year

Increasing communications with stakeholders such as credit unions and internal staff will yield a more transparent and effective regulatory environment. NCUA is committed to continue stakeholder communications through various means in 2011. Several of these methods have been chosen to serve as measures that will indicate whether the agency meets its objective.

Operational processes and strategies:

- Hold webinars to explain guidance to both examiners and credit unions.
- Track exam-related complaints to determine whether regulation complexity contributes to issues.
- Increase overall communications with stakeholders through broadcasting open Board Meetings, conducting Town Halls, periodic webinars.

Information Technology:

Use available technology to increase communication vehicles.

<u>Strategic Goal 5</u>	<u>Strategic Outcome</u>
Cultivate an environment that fosters a diverse, well-trained and motivated staff.	Credit unions will offer services to members and potential members throughout their field of membership.
This is not a program-specific goal, but one that allows the agency to meet all its other programs and goals.	
Primary Contributing Offices: Equal Opportunity Programs, Office of Examination and Insurance, Office of Human Resources, Office of Minority and Women Inclusion	

NCUA leadership recognizes that the agency will not meet its goals and mission without its most important resource: its staff. Human capital management has been raised to the strategic goal level to highlight its importance and management’s commitment to creating an environment that fosters a diverse, well-trained and motivated staff. Throughout 2009 and 2010, the agency has continued to hire additional staff as needed to implement agency programs, and has maintained a low vacancy rate. Leadership also approved the creation of a new Office of Minority and Women Inclusion in 2011.

Annual Performance Objective 5.1

Increase staffing in line with projected needs to accommodate the enhanced examination schedule.

<u>Measure</u>	<u>2011 Target</u>
Examiner position vacancy rate	Decrease from 2010

NCUA will fully implement the annual examination schedule in 2011. This will increase the overall examination workload and require increased human capital resources. As such, it will be imperative to maintain adequate staffing levels. The vacancy rate for examiner positions serves as the best measure to determine whether the agency is meeting its objective.

Operational processes and strategies:

- Improve NCUA recruitment strategy with a focus on diversity and veteran hiring.
- Establish measures/metrics to enhance excellence and accountability (president's hiring reform metrics).
- Address barriers to Equal Employment Opportunity (EEO) for identified groups. Equal Opportunity Programs (EOP) will work with the Office of Human Resources (OHR) to enhance recruitment efforts that could increase participation rates and representation of underrepresented groups such as Hispanics and people with disabilities in the workforce.

Human Capital:

The 2011 NCUA Budget includes the addition of sixty (60) FTE field positions throughout the Regions: fifty-three (53) examiners, six (6) supervisory examiners and one (1) lending specialist.

Annual Performance Objective 5.2

Enhance training to update knowledge and skill level of staff so they can meet changing environmental challenges.

<u>Measure</u>	<u>2011 Target</u>
Attendance rate of new training courses	Establish baseline in 2011

NCUA strives to maintain a well-trained staff. Training courses are regularly evaluated and new courses or additional training is added as the operating and regulatory environment changes for the credit union industry. As NCUA implements its Online Learning Management System (OLMS), it will track attendance information for all training courses. The attendance rate for new training courses will serve as a measure to determine whether staff is regularly updating its skill level.

Operational processes:

- Enhance technical training courses to update the knowledge and skill level of field examination staff.
- Implement and fully utilize the OLMS, which allows users to view available courses, coordinate schedules and maintain their training records.

- Implement new Executive Leadership Program.
- Provide staff training on new or revised NCUA Regulations, instructions, and bulletins
- Update staff on emerging trends and any developing risk areas.
- Efficiently transition staff from regional offices to OCP.

Human Capital:

Regional training specialists have been realigned to fall under the supervision of the Office of Human Resources, in order to standardize training and better leverage training resources available in the Division of Training and Development.

Information Technology:

NCUA will utilize a new, web-based system to consolidate staff training in one place and provide better access to a wider variety of training. Additionally, the agency has budgeted \$138,000 in 2011 for the addition of new courses.

<u>Annual Performance Objective 5.3</u>	
Increase representation and participation rates of underrepresented minorities in the NCUA workforce.	
<u>Measure</u>	<u>2011 Target</u>
NCUA staff /Civilian Labor Force - Hispanics	Decrease gap
NCUA staff /Civilian Labor Force – Targeted Disabilities	Decrease gap

NCUA strives to be a diverse employer. Its EOP has determined that the agency needs to increase representation of underrepresented groups such as Hispanics and those with targeted disabilities. Accordingly, NCUA will measure achievement of this objective by comparing the NCUA staff representation with that of the civilian labor force.

Operational processes:

- The EOP will complete an agency-wide workforce analysis study.
- EOP will continue to track diversity numbers and make recommendations to OHR to increase agency staff diversity at all levels.
- OHR will develop hiring strategies to encourage increased participation of minorities (e.g., recruit at targeted colleges and universities, advertise in targeted websites).

Human Capital:

EOP is dedicated to meeting diversity objectives and includes three full-time staff as well as nine part-time EEO counselors.

Annual Performance Objective 5.4

Establish the Office of Minority and Women Inclusion.

<u>Measure</u>	<u>2011 Target</u>
Office is staffed and office processes are established	100% by 4 th quarter

The Office of Minority and Women Inclusion will be created in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. As indicated in Public law 111-023. The Office will *“develop and implement standards and procedures to ensure, to the maximum extent possible, the fair inclusion and utilization of minorities, women, and minority-owned and women-owned businesses in all business and activities of the agency at all levels.”* NCUA’s objective is to fully staff the office and establish office processes in 2011.

Operational processes:

- Conduct recruiting to fully establish the office.
- Collaborate with EOP to determine agency diversity and develop standards to increase diversity at the staff and senior management levels.
- Collaborate with the Office of the Chief Financial Officer to develop standards and procedures for reviewing and evaluating proposed contracts in the procurement process for compliance with the inclusion of women and minorities under the Dodd Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203.
- Develop strategy to enhance financial literacy programs for minority and women high-school students.
- Develop reporting mechanisms, parameters and schedule for congressional reports.
- Encourage credit unions to diversify hiring at all levels and increase utilization of minority and women-owned businesses.
- Develop reporting mechanisms to track diversity of credit union staff.

Human Capital:

The Office will include six staff positions, including a senior executive level office Director.

Annual Performance Measures and Targets

Objective 1.1 - Monitor and control credit union risk.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Percentage of FICUs receiving annual examination ⁵	TBD	TBD	TBD	TBD	TBD	100%
Losses to the NCUSIF (in millions)	\$2.5	\$186.4	\$290.4	\$625.1	\$600	decrease
Objective 1.2 - The corporate credit union system is stabilized. ⁶						
Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target ⁷
Corporate credit union system interim leverage ratio	6.86%	6.12%	(5.42%)	(3.07)	1.21%	4%
Objective 1.3 - Further implement the Office of the Chief Economist						
Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target ⁸
The Office of the Chief Economist is fully staffed and operational	N/A	N/A	N/A	N/A	N/A	100%

Objective 2.1 – Further implement the Office of Consumer Protection.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
OCP is fully staffed	N/A	N/A	N/A	N/A	50%	100%
Objective 2.2 - Assist low-income credit unions in increasing accessibility of financial services.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Number of new grant applicants						Increase
Percent of appropriated funds expended ⁹	145.8	158.8	118.9	102.6	100%	100%

⁵ Includes FISCUs with assets greater than \$250,000,000 receiving joint examination.

⁶ In 2010, U.S. Central FCU, Western Corporate FCU, Southwest Corporate, and Members United Corporate FCU were liquidated and a bridge corporate was formed for each. The negative capital associated with those corporates was not transferred to the bridge corporates, but was transferred to Asset Management Estates. Additionally, Constitution Corporate was liquidated and its operations were transferred to Members United Bridge Corporate FCU.

⁷ In September 2010, the NCUA Board approved a revised corporate rule, Part 704. As such, effective in the fourth quarter of 2011, the standard "capital ratio" will no longer be used. The new standard will be an "Interim Leverage Ratio" which is derived by dividing any combination of Non-perpetual Capital Accounts, Perpetual Contributed Capital, or Retained Earnings of a corporate by its moving daily average net assets. The table above presents capital ratios from 2006 through 2010, and the Interim Leverage Ratio in 2011.

⁸ In September 2010, the NCUA Board approved a revised corporate rule, Part 704. As such, effective in the fourth quarter of 2011, the standard "capital ratio" will no longer be used. The new standard will be an "Interim Leverage Ratio" which is derived by dividing any combination of Non-perpetual Capital Accounts, Perpetual Contributed Capital, or Retained Earnings of a corporate by its moving daily average net assets. The table above presents capital ratios from 2006 through 2010, and the Interim Leverage Ratio in 2011.

⁹ Amounts expended include appropriated funds plus income. The income stream can fluctuate for several reasons including, a spike in loan pay-offs, or fluctuation in the interest rate.

	%	%	%	%		
Objective 2.3 - Increase public knowledge of NCUA and NCUSIF benefits.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
NCUA ad landing website page visits	N/A	N/A	N/A	N/A	4800	Increase

Objective 3.1 - Provide greater transparency and clarification of consumer compliance regulations.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Equal Credit Opportunity Act violations	121	102	83	85	77*	Decrease
Home Mortgage Disclosure Act violations	64	51	53	48	29*	Decrease
Fair Housing Act violations	24	21	13	9	10*	Decrease
Truth-in-Lending violations	283	289	292	298	255*	Decrease
Number of complaints pertaining to regulations received in consumer hotline	N/A	N/A	N/A	N/A		

* Annualized percentage

Objective 4.1 - Increase communications with stakeholders to yield a more transparent and effective regulatory environment.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Participation - Town Hall meetings	N/A	N/A	N/A	N/A	N/A	TBD ¹⁰
Participation- Webinars on regulatory topics	N/A	N/A	N/A	N/A	N/A	TBD
Participation - Small Credit Union workshops and roundtables (by number of credit unions)	1,060	1,106	1,490	1,703	1,112	1,134

Objective 5.1 - Increase staffing in line with projected needs to accommodate enhanced examination schedule.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Vacancy rate for examination positions	6.9%	7.09%	8.93%	4.78%	8.05%	decrease

Objective 5.2 - Enhance training to update knowledge and skill level of staff.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Attendance rate for new training courses	N/A	N/A	N/A	N/A	N/A	TBD ¹¹

Objective 5.3 - Increase representation and participation rates of Hispanics and people with targeted disabilities in NCUA workforce.						
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
NCUA staff/civilian Labor Force - Hispanic	TBD	TBD	TBD	TBD	TBD	TBD
NCUA staff/civilian Labor Force -Targeted	TBD	TBD	TBD	TBD	TBD	TBD

¹⁰ Data will be tracked in 2011 to establish a baseline.

¹¹ Attendance will be tracked throughout 2011 and a baseline target will be established.

Disabilities						
Objective 5.4 - Establish Office of Minority and Women Inclusion.						
Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target
Office is fully staffed and office processes are established	N/A	N/A	N/A	N/A	N/A	100%

Strategic Measures and Targets

Goal 1 - Ensure a safe, sound and healthy credit union system.

Outcome 1.1 - An effective supervision program for federally insured credit unions (FICU).							
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target	2016 Target
Percentage of FICUs with CAMEL rating 1 or 2	80%	79.8%	77.1%	73.8%	72%	73%	78%
Percentage of rehabilitated problem FICUS (former CAMEL 4/5 that have improved to 3 or above)	55.7%	46.2%	36.8%	39.9%	17.9% ¹²	TBD	35%
Percentage of FICUs >100 million in assets with CAMEL rating 1 or 2	TBD	TBD	TBD	TBD	TBD	TBD	92%
Outcome 1.2 – A stabilized corporate credit union system that continues to provide services to natural person credit unions.							
Percentage of corporate credit unions that meet NCUA retained earnings/net worth ratio requirements.	N/A	N/A	N/A	N/A	25%	100% by 2013 ¹³	100%

Goal 2 - Promote credit union access to all eligible persons.

Outcome 2.1 - A wide range of financial services are available to members and potential members from all walks of life.							
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target	2016 Target
Growth in potential membership	9.6%	7.7%	9.7%	5.1%	5.8%		9% annually
CDRLF funds are provided for outreach and enhancing financial services to members and potential members.	TBD	TBD	TBD	TBD	TBD	TBD	75% or higher
Outcome 2.2 - Members and potential members are aware that their accounts are insured up to \$250,000.							
Percent consumer hotline member questions related to NCUSIF that are satisfactorily resolved.	N/A	N/A	N/A	N/A	N/A	TBD	TBD

¹² Data as of 9/30/2010.

¹³ The new corporate rule established new retained earnings requirements for corporate credit unions which are in process of restructuring and recapitalizing. The targets are that all corporate credit unions will have a .45 percent retained earnings ratio by 2013 and all will have a 1 percent ratio by 2016, followed by a 2 percent ratio for 2020 and subsequent years.

Goal 3 - Further develop a regulatory environment that is transparent and effective.

Outcome 3.1 - Credit Unions are an accessible financial institution choice for consumers of all backgrounds and income levels.							
Measures	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target	2016 Target
Growth in potential members in underserved areas and community charters. ¹⁴	TBD	TBD	TBD	TBD	TBD	TBD	*
Growth in the use of credit union services						Increase	Increase
Regular shares	(6.8%)	(6.7%)	5.7%	11.8%	8.5%	Increase	Increase
Loans	8.1%	6.7%	7.1%	1.2%	(0.9)	Increase	Increase
Credit cards	11.1%	13.4%	8.6%	6.6%	0.0%	Increase	Increase

Goal 4 - Issue clearly articulated and easily understood regulations.

Outcome 4.1 - Regulations are user friendly, effective and enhance the safety of the credit union system without adding undue burden.							
Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target	2016 Target
Minimize the complexity of rules and regulations issued	N/A	N/A	N/A	N/A	N/A	TBD	*

Goal 5 - Cultivate an environment that fosters a diverse, well-trained and motivated staff.

Outcome 5.1 - Credit unions will offer services to members and potential members throughout their field of membership.							
Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Est.	2011 Target	2016 Target
Percentage of community credit unions satisfying the terms of their marketing and business plans. ¹⁵	N/A	N/A	N/A	N/A	N/A	TBD	*
Percentage of NCUA examiners who are certified as Principal Examiners.	N/A	N/A	N/A	N/A	13 ¹⁶	Increase	*

¹⁴ Data from low-income credit unions will be used to establish benchmark.

¹⁵ Applies only to Federal Credit Unions with community-wide fields of membership to ensure the credit union is serving its community as intended through field of membership expansion.

¹⁶ Principal Examiner certification process was established in 2010.

* Establish benchmark in 2011

Appendix A – Budgetary Requirements by Program

FY 2011 Budgeted Dollars by Major Program (in Millions)										
Supervision		Insurance		Small CU Init.		Consumer Prot.		Asset Mgt.		Total
Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
\$147.7	65.7%	\$59.8	26.6%	\$5.8	2.6%	\$6.5	2.9%	\$4.9	2.2%	224.7
FY 2011 Projected FTE by Major Program										
Supervision		Insurance		Small CU Init.		Consumer Prot.		Asset Mgt.		Total
FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE	Percent	FTE
791	65.4%	321	26.5%	28	2.3%	37	3.1%	32	2.6%	1209

Appendix B - Changes in Performance Measures

NCUA's APB 2011 is the first written under Strategic Plan 2011-2016. As such, NCUA's annual performance measures have changed from prior years, reflecting a change in strategic goals and measures under its new 2011-2016 Strategic Plan. While three of the strategic goals have remained the same, two other goals, reflecting the agency's commitment to transparency and its human capital, have been added. Management changed the existing measures to better reflect the current economic climate and how NCUA is meeting current challenges to accomplishing its goals, and added measures for the new goals.

The 2011 Annual Performance Budget reflects these changes to the 2011-2016 strategic goals, as well as environmental factors that determine agency priorities, in its objectives and related annual performance measures. While the quantitative aspects of measures have been re-designed, the spirit of the outcomes they measure remain similar to those in prior agency plans. As a result, strategic and annual measures have a stronger focus on improving the fiscal health of the credit union system as well as its ability to serve its members and provide access to services to all consumers.

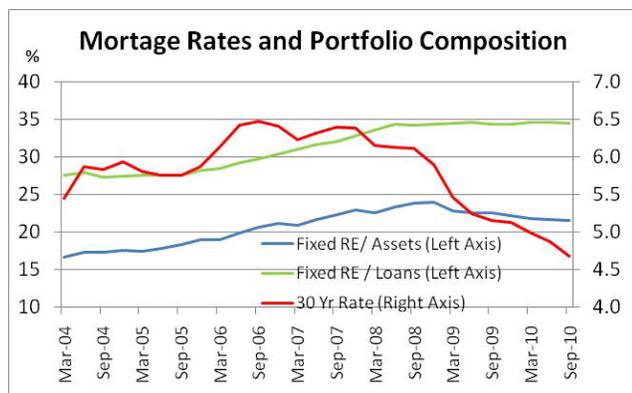
Appendix C – External Factors

Economic recovery is expected to gain speed in 2011, but economic conditions will continue to be a drag on credit union (CU) performance. While output will continue to grow and the job market will strengthen in 2011, unemployment will remain elevated. As the recovery progresses and inflation expectations are updated, interest rate risks may emerge. The interest rate environment will be shaped by the speed of the economic recovery, monetary policy, and international debt concerns. The housing market will continue to stabilize, but high mortgage delinquency rates and foreclosures will continue to weigh on house prices.

Key Risks include:

- **Rising interest rates impact CU earnings and raise ALM issues. This is especially critical given the unusually low rates we have experienced and the unusually high level of fixed rate assets on CU balance sheets.**
- **Continued high unemployment slows/stalls some regional housing market recoveries.**
- **Management of delinquent and underwater mortgages given recent slowdowns in foreclosure timelines and increased emphasis on foreclosure process.**

The outlook for economic growth strengthened at year end, reflecting positive indicators of economic activity and the expected impact of tax cuts and unemployment insurance extensions signed in December. Most analysts expect the package to increase 2011 GDP growth by between ½ and ¾ percentage points. Based on the private consensus forecasts, this will raise 2011 GDP from 2.6% to between 3.1% and 3.4%. Consumer spending should continue to rebound. Increasing economic growth, consumer spending and an improving employment situation should increase demand for borrowing and help reduce delinquencies.



Interest rate risk may increase in 2011. Rates remain near their historical lows. Nevertheless, interest rate and inflation expectations can change rapidly given the uncertainty about the economic and policy outlook. A sustained increase in rates could dampen activity in some sectors, especially in the housing market, reduce demand in an important area of CU lending as refinancing slows, and raise asset-liability management (ALM) issues given the elevated levels of fixed rate mortgages on many balance sheets. As the recovery progresses, demand for borrowing and expectations of inflation

will likely rise. Both of these factors will push up nominal rates.

Despite a positive impact of the payroll tax holiday and unemployment benefit extension, the job market is expected to remain weak through 2011. The unemployment rate is currently expected to average 9.4% in 2011, almost twice the pre-recession level, but a decline from 9.8% average of 2010. Continued elevated unemployment, particularly long-term unemployment, raises credit risks.

The housing market outlook remains uncertain. Although home sales should start recovering in 2011, some analysts expect additional price declines reflecting the large shadow inventory of homes in foreclosure or held off-market. Continued weakness in the labor market will be a negative for the

housing market. While broad measures of delinquency appear to have peaked, CU mortgage delinquency rates are still rising. In 2011, CUs will continue to deal with significantly elevated levels of foreclosures as they work through a large stock of delinquent borrowers, including failed modifications.

Regionally, recovery is expected to lag in the West, as it continues to be weighed down by troubled housing markets. Performance in the South will remain mixed – with lagging Southeast and a slowly recovering Southwest.¹⁷

¹⁷ Moody's Economy.com Regional Forecast, December 2010.

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